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THE OUTLOOK FOR IRAN

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Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 23 January 1957. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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CENTRAL INTELLIGENCE AGENCY

23 January 1957

SUBJECT: NIE 34-57: THE OUTLOOK FOR IRAN

THE PROBLEM

To estimate probable trends in Iran's stability and orientation over the next few years.

CONCLUSIONS

A. We believe that over the next few years the present regime in Iran can rely upon police controls and the support of the armed forces to maintain itself in power. However, its ability to govern effectively for a period beyond the next two years or so will depend greatly upon the extent to which current plans for economic development are carried out and the progress made in social and political reforms. Should it not be able to show significant progress along these lines, the urban classes are likely to become increasingly restive. In such an event, the position of the monarchy might be endangered, since the Shah has identified himself closely with the government in power.

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B. So long as the Shah retains control, Iran will almost certainly seek to identify its interests with the US and the anti-Communist states of the Middle East. However, the continuation of such a course depends heavily on US support of Iran and the maintenance of US prestige in the Middle East.

C. The succession to the throne is not clearly established, and the death or incapacity of the Shah would probably open up a period of factional disturbances and a struggle for power. The outcome of such a situation would depend largely on whether the armed forces remained united and on what leader or leaders they supported.

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DISCUSSION

1. The Shah of Iran, through his increasing direct intervention in government and with the support of many of the traditional power elements -- senior army officers, landlords, and wealthy merchants -- has had a substantial measure of success in restoring the position and authority of his government since the overthrow of Mossadeq in 1953. The Tudeh (Communist) Party and extreme nationalist opposition groups as exemplified by the followers of Dr. Mossadeq have been repressed and offer no immediate threat to internal security.* Oil production and revenues are increasing steadily under the basic agreement reached with the Consortium in 1954. The tribal areas are more quiet than they have been in many years. The opportunities for dissident political elements to thwart the government in the Majlis has been curbed by rigging elections and by throwing the full weight of the monarchy behind the government's program. The press has been under vigorous censorship, and open criticism of the government has been virtually silenced.

2. In this situation, the Shah has been able to pursue foreign policies consistent with his own view of Iran's national interests and generally parallel to those of the US and the West. The Shah and his

* Since the spring of 1955 the Iranian security forces have disrupted the Tudeh organization structure to such an extent that its present capabilities for effective political and subversive activity are extremely low.

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government under Prime Minister Ala have been concerned primarily with defense against Soviet expansionist ambitions in Iran and the Middle East, with developing Iran's economic strength, and with enhancing Iran's prestige in international affairs. These interests have led the government of Iran to welcome US support for the regime and to seek additional military and economic aid from the US. Both publicly and privately they have endorsed President Eisenhower's proposals of 5 January 1957 concerning the Middle East. Despite the traditional leaning toward neutrality and antiforeign feeling within the country, and despite US unwillingness to provide prior additional aid and security commitments as a quid pro quo, Iran joined the Baghdad Pact in October 1955 and has since played an active role in its affairs. With the settlement of the oil dispute in 1954, and the reduction in British ability to influence affairs in Iran, the Iranians have welcomed the restoration of relationships with the UK, particularly in the commercial field.

3. Iran has not become directly involved in Arab rivalries or in the nationalist, anticolonial maneuvers of the Afro-Asian Bloc. Despite public sympathy for Egypt during the recent hostilities, the government has remained cool towards Nasser. Concern over the movement of oil has

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probably played an important role in Iran's continued identification of its interests with the West on the Suez issue.

4. The Shah has firmly resisted Soviet blandishments and occasional veiled warnings designed to lure or coerce him into a neutral posture. At the same time, he has welcomed friendly Soviet gestures such as the payment of a World War II claim amounting to about \$21 million in gold and dollar exchange, offers of expanded trade, and settlement of the boundary disputes.

5. Iran's essentially agrarian and underdeveloped economy has experienced a period of recovery since the resumption of oil production in 1954. Up until the present Iranian fiscal year, * expenditures had been rising at a higher rate than the expanding government revenues. The resulting deficits since August 1953 would have had an inflationary impact on the economy had it not been for additional imports financed by US budgetary assistance amounting to about \$150 million. Due to the recent allocation of part of the oil revenues to the ordinary budget and the probable increase in oil production, about 50 million dollars of oil revenues is likely to be available for the ordinary budget in each of the next two Iranian fiscal years. ** This and the rising trend of other government revenues should permit the government

* The Iranian fiscal and calendar year begins on 21 March.

** Oil revenues (including taxes and other stipulated payments) were \$88 million in 1955, will probably total \$160 million for 1956, and may reach \$200 million in 1957.

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to cope with its ordinary budget requirements without further US budgetary support. However, Iran is now seeking and will almost certainly continue to seek US budgetary support. Over the course of the Second Seven Year Plan (1955-1963) oil revenues, which are estimated to reach an annual level equivalent to \$237 million* by early 1959, will probably be adequate to cover the requirements of the Plan Organization. During the next two years, however, Iran will probably have to depend on loans from such sources as the Export-Import Bank and the IBRD if its ambitious development schedule is to be met.

6. Although a major share (60 percent in 1956 and 1957, and 75-80 percent in the next five years) of the steadily increasing oil revenues has been committed to the Seven Year Plan, few visible results have been obtained. Government efforts so far have been principally confined to planning and contracting activities and a large proportion of them have been for projects beyond the capacity of Iranian administrative, technical, and management capabilities. Despite the fact that the current plan is but a first and very inadequate approximation of what an Iranian development plan ought to contain, it does set forth priorities in communications, transportation, irrigation, and power that are prerequisites to any longer run development of the country. However, public disillusion with the Plan Organization, due to delays and an exaggerated expectation of what the oil revenues can accomplish, makes it politically necessary that visible progress on projects of immediate impact value both in Tehran and the provincial cities be realized in the next few years.

The government is depending for such progress on a number

* Consortium payments to Iran are in sterling. Under a secret UK-Iranian convertibility agreement 40 percent of these sterling

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of foreign firms to whom it has contracted out many of the projects. Whether it will be successful will depend in large measure on the support that the Plan Organization gives these firms.

7. The Iranian military and security forces, numbering some 168,000 officers and men, are presently organized, equipped, and deployed primarily for internal security duties, and these forces are clearly strong enough to deal with any prospective internal opposition.* The purges of 1954-1956 effectively reduced a dangerous Tudeh infiltration among officers and men. We believe that over the next few years the armed forces will remain responsive to their senior officers, most of whom are loyal to the Shah, although there will continue to be signs of dissatisfaction with the regime. Many field grade and lower officers are sympathetic to the Mossadeq type of nationalism, but they would be unlikely to initiate any movement against the regime. The loyalty of the officer corps to the monarchy would be uncertain in the event of the death or incapacity of the Shah.

* The armed forces consist of a conscript army of 137,000, a gendarmerie or rural police force of 23,000, and a small air force (3,700 officers and men) and navy (3,970 officers and men), as well as a frontier guard. The three services have co-equal status under a Supreme Staff. The gendarmerie is under the control of the Ministry of Interior except in wartime, when it comes under army command.

The army is currently organized into nine light infantry divisions, three light armored divisions, and five independent brigades. The air force has a total of 130 aircraft, including 6 T33 jets and 18 F47s. The navy consists of two patrol escorts, one submarine chaser, one yacht, 14 patrol vessels, and three small service craft.

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8. The Shah has accepted US recommendations for a reorganization and redeployment of his army which are designed to increase combat effectiveness and might provide some capability for conducting a limited delaying action along Iran's northern frontier. However, improvement in the ability of the Iranian armed forces to make any useful contribution to local or regional defense will almost certainly be slow and difficult to realize because of the generally low level of morale among the poorly paid conscripts, the lack of technical competence and military experience, and the prevalence of corruption. Moreover, the implementation of this program will probably be possible only on the basis of continuing US military advice and an increase in US aid over current levels.

9. Iran's present orientation depends heavily upon the Shah's personal leadership, continued US support, and the achievement of internal improvements sufficient to increase confidence in the regime and prevent a reversion to extreme nationalism. President Eisenhower's proposals of 5 January 1957 will probably ease Iranian pressure for a US security commitment against an attack by the Soviet Union, but will not satisfy the Shah's desire for substantial US military aid. In Iran's present posture of open alignment with the West, the Shah will thus expect continued US aid and support, including establishment of a modern armed force.

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If he should be substantially disappointed in this expectation, if the Baghdad Pact should collapse, or if US prestige should suffer serious blows in the Middle East, the Shah might feel compelled to adopt a neutral position and to make accommodations to the USSR and the internal opposition. To do so, however, would involve a considerable loss of his domestic prestige.

10. Internally the government has made little progress in coping with the fundamental causes of discontent that gave strength to the ultranationalists and Communists in the Mossadeq era. Despite the increased directness of his leadership, the Shah has not overcome lethargy and corruption in the government machinery, and some of his own maneuvers have added to the debilitating atmosphere of intrigue and factionalism among responsible officials. The Shah's efforts to encourage land reform and to satisfy widespread peasant aspirations for land-ownership have met stubborn opposition from the landlord class. Little progress has been made in alleviating the economic grievances of the urban workers.

11. Largely as a result of these factors, the regime has been unsuccessful in developing a solid basis of popular support and in fact has actually lost ground in this regard since the events of 1953. Popular hopes that the restoration of the Shah's authority and the solution of the oil dispute would provide a solid basis for economic and social progress have given way to a general sense of frustration. The Ala government has become the object of word-of-mouth criticism by all classes of the Iranian public because of its suppression of civil liberties, its apparent indifference to popular grievances, and the preoccupation of its leading figures with matters of personal advantage.

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This criticism has come increasingly to involve the Shah, whose intervention in day-to-day government operations has deprived him of some of his prestige as a national symbol above the political struggle. Although criticism of the regime is strongest among intellectuals and reform elements, who especially resent their lack of opportunity to express their views openly, it exists among virtually all elements of the politically conscious public both in Tehran and in the provinces, including even those closely associated with the regime. The Shah will be faced increasingly with such criticism and will have to take steps to satisfy it if he is to avoid an internal crisis dangerous to the monarchy.

12. The Shah is at the moment in firm control of the situation, and political activity largely revolves about the efforts of various interests and personalities to gain his favor. Despite the existence of widespread grumbling and cynicism about the government, there is little disposition by any opposition groups to challenge the status quo as long as the Shah can effectively command the loyalty of the armed forces. Nevertheless, unless greater progress in economic development, especially that benefiting the urban classes, and general modernization of the social and political structure is

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made in the next few years, the government's ability to maintain internal stability is likely to become increasingly dependent on uninterrupted maintenance of strong police controls. Because of the firmness of these controls and because of the Shah's assumption of responsibility for government policy, future opposition and reform movements are likely to include him as a target and to take on a more revolutionary cast than in the past. The Tudeh Party -- which continues to exist covertly -- has the potential to exploit such conditions and will almost certainly attempt to join forces with other opposition elements.

13. The succession to the throne is not clearly established, and the death or incapacity of the Shah would probably open up a period of factional disturbances and a struggle for power. The outcome of such a situation would depend largely on whether the armed forces remained united and on what leader or leaders it supported.

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